



IRA Tax Credits: Direct Pay for Local Governments

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Division of Energy Resources

Important Caveats

I am not a tax attorney

IRS guidance for “direct payment” (aka “elective pay”
of tax credits ~~has not yet been released~~

*IRS released proposed rules two hours ago– dense
108 pages of text (6/14/23)*

Because of the Inflation Reduction Act of 2022:

States, Cities, and Municipalities

Tribal Nations

Non-profits

Rural Cooperatives and Municipal Utilities

ALL HAVE REASON TO THINK HARD ABOUT FEDERAL CLEAN ENERGY TAX CREDITS

The Federal Government has a history of tax credits to encourage renewable energy deployment



Wind Production
Tax Credit (PTC)
since 1992



Solar Investment
Tax Credit (ITC)
since 2006

Inflation Reduction Act of 2022 (IRA)



The Biggest Climate Action Law

Ever

Anywhere in the World

The IRA ...135 distinct programs and tax credits

Puts U.S. on a path to 40% greenhouse gas emission reductions by 2030

(2005 baseline)

Grants = \$110 billion (capped)

Clean energy loans ~ \$500 billion

Tax Credits ~ \$600 billion to \$1.2 trillion (uncapped, estimated)

- “Direct Pay” for local governments, Tribes, and non-profits

Expanded Tax Credits

Tax credit provisions incentivize low- & no-carbon electricity

- ITC and PTC are back, stronger than ever– workhorses of the IRA
- Existing eligibility for PTC (wind) and ITC (solar) now broadened to allow both to use either tax credit
- Stand-alone energy storage projects can receive the ITC
- Expanded to include geothermal, fuel cells, biomass, landfill gas, hydropower, combined heat and power

IRA added tax credits for additional energy technologies:

- nuclear
- fossil fuels utilizing carbon capture and storage
- clean hydrogen
- advanced biofuels
- sustainable aviation fuel

Expanded Tax Credits

IRA added tax credits transportation:

- Families and Individuals: New Electric Vehicles (EVs)
- Families and Individuals: New Electric Used EVs
- Commercial and Fleet Clean Vehicles
- Clean refueling equipment/ EV chargers

Tax Credits for Supply Chain and Manufacturing

Expanded Tax Credits

- Applicability timeline varies:
 - Most programs available for the next 9 years
 - Electric sector ITC/PTC for renewables and electricity storage available until national emissions are <75% of 2022 emissions levels
- Can stack federal grants, loans and a tax credit on the same project, but **cannot claim two tax credits** on the same project

Most Credits Eligible for Direct Pay also eligible for Transferability

IRA Section	Tax Code Section	Program Name	Direct Pay	Transfer
13101	45	Production Tax Credit (PTC)	X	X
13102, 13702(h)	48	Investment Tax Credit (ITC)	X	X
13103	48(e), 48E(h)	Increase in Energy Credit for Solar and Wind Facilities placed in Service in Connection with low-income communities	X	X
13104	45Q	Carbon Capture and Storage	X	X
13105	45U	Nuclear Power Production Credit	X	X
13204	45V	Clean Hydrogen Production Tax Credit	X	X
13403	45W	Commercial and Fleet Clean Vehicles Credit	X	X
13404	30C	Clean Fuels Infrastructure/ EV chargers	X	X
13501, 13502	48C, 45X	Clean manufacturing and supply chain credits	X	X

Direct Pay Provisions

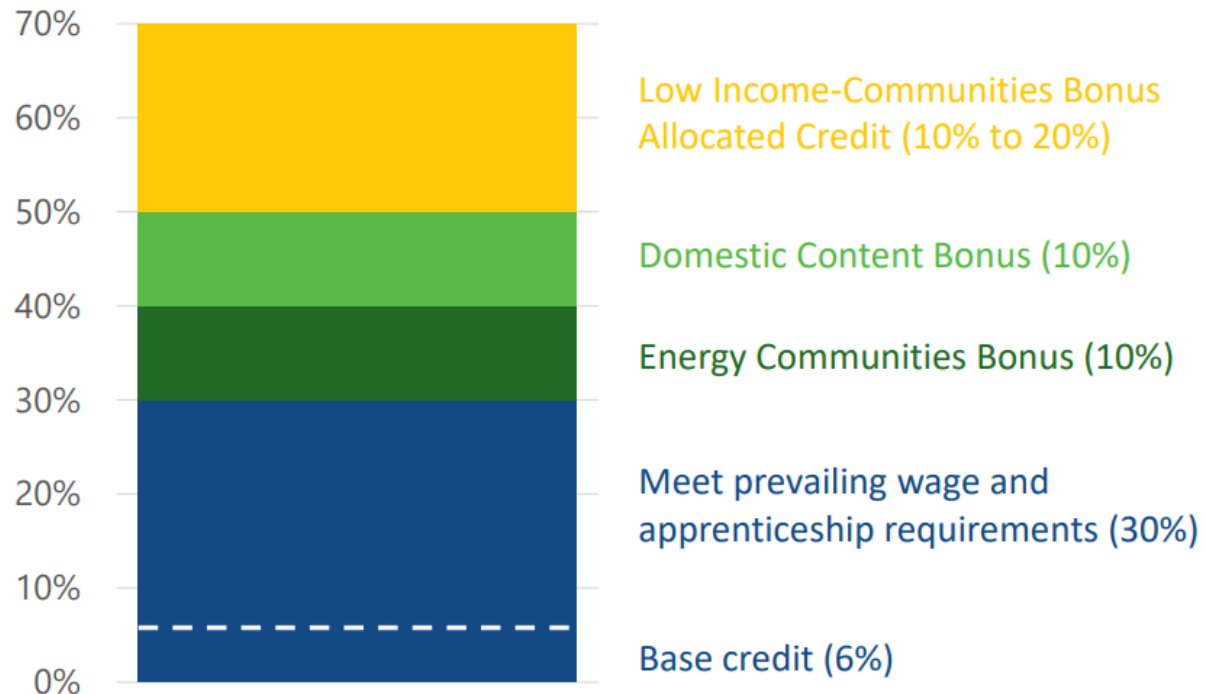
“Direct pay” allows tax-exempt entities to capture tax benefits

- States
- Cities, Counties, Townships
- Tribal Nations
- Non-profits
- Faith Communities
- Cooperative and Municipal Utilities
- Other governmental entities

Tax Credit Adders & Stacking

Clean Energy Layer Cake

Total Investment Tax Credit



A hypothetical 1 MW community solar facility costing \$1 million could earn a **70% tax credit** worth \$700,000

If it is owned by a tax-exempt entity, this could be a **direct cash payment** from the IRS

Applies to clean electricity investment and production tax credits, available till at least 2032

Slide Credit:
Paul
Donohoo-
Vallet,
US DOE

Direct Pay: Details

- K-12 schools are eligible for direct pay, state college eligibility unclear
- New IRS registration system
 - Not an “application”– designed to combat fraud
 - For the most part, if you are eligible for a tax credit, you just get it– much easier than a competitive grant proposal or a loan application
- Tax credits paid **AFTER** project completion
 - You will need bridge funding

Direct Pay: Known Details

- Annual Cap on funding for certain, specific tax credits programs.
Cap applies most notably to the “low-income communities bonus allocated credit” for wind and solar

Mandatory compliance with domestic content rules for projects with start dates of 2024 and beyond

Tax Credits for domestic manufacturing



2023 MN ENERGY LEGISLATION

- Buy Clean, Buy Fair Minnesota
- 100% Carbon-Free Electricity by 2040
- Sustainable Building Guidelines Modifications
- Preference Order for Purchase of State Vehicles
- RDA Projects Subject to Prevailing Wage/Diversity Report
- Solar Reward Expansion
- Air Ventilation Program Act
- Auto dealers must employ personnel with knowledgeable of electric vehicles
- Utility Reporting Due Date Modification
- Repeal/Reinstatement of Intervenor Compensation Statute
- Electric Vehicle Deployment Program
- **Strengthen MN Homes**
- Customer's Access to Electricity Usage Data
- Transportation Electrification Plan
- Community Solar Garden Modifications
- Prairie Island Nuclear Power Plan Settlement Payments
- Distributed Solar Energy Standard
- Energy Storage Systems Deployment Target
- Utility Customer Dispute Resolution
- Definition of Low-Income Household
- Approval of Projects to Modernize Transmission and Distribution System
- Large Wind Energy Conversion System Certification of Need Exemption
- Modification of Threshold Requiring PUC Approval
- Commerce's Assessment Increase
- Compensation for Certain PUC Proceeding Participants
- **State Competitiveness Fund**
- State Competitiveness Fund 2.0
- **Climate Innovation Finance Authority**
- Commissioner authority to administrator Solar for Schools Program
- **Pre-weatherization and Workforce Training Program**
- Energy Benchmarking
- Electric School Bus Deployment Program
- Solar for School Modifications from Xcel to Commerce Department
- Solar on Public Building Program Establishment
- Energy Storage Incentive Program
- Distribute Energy Resources System Upgrade Program
- Electric Vehicle Rebates
- Dealers Grants to Cover cost manufacturer certification
- PACE Loan Program
- **Residential Electrical Panel Upgrade Grant Program**
- **Residential Heat Pump Rebate Program**
- Public Utility Diversity Reporting
- Energy Storage System Definition
- Conforming Changes to definition of large energy power facilities and site permit
- Gas and Hazardous Liquid Definitions Changes
- Greenhouse Gas Emission Reduction Goal Modifications
- Modification to Annual Report on Telecommunications Access



New Minnesota programs to leverage federal funds

State Competitiveness Fund	
Matching funds for Federal Grants	\$ 100,000,000
Technical Assistance Grants	\$ 6,000,000
Grants to leverage tax credits and loans (for projects serving disadvantaged communities)	\$ 75,000,000
New Minnesota “Green Bank”	\$ 45,000,000

Key New State Programs

Solar for Schools

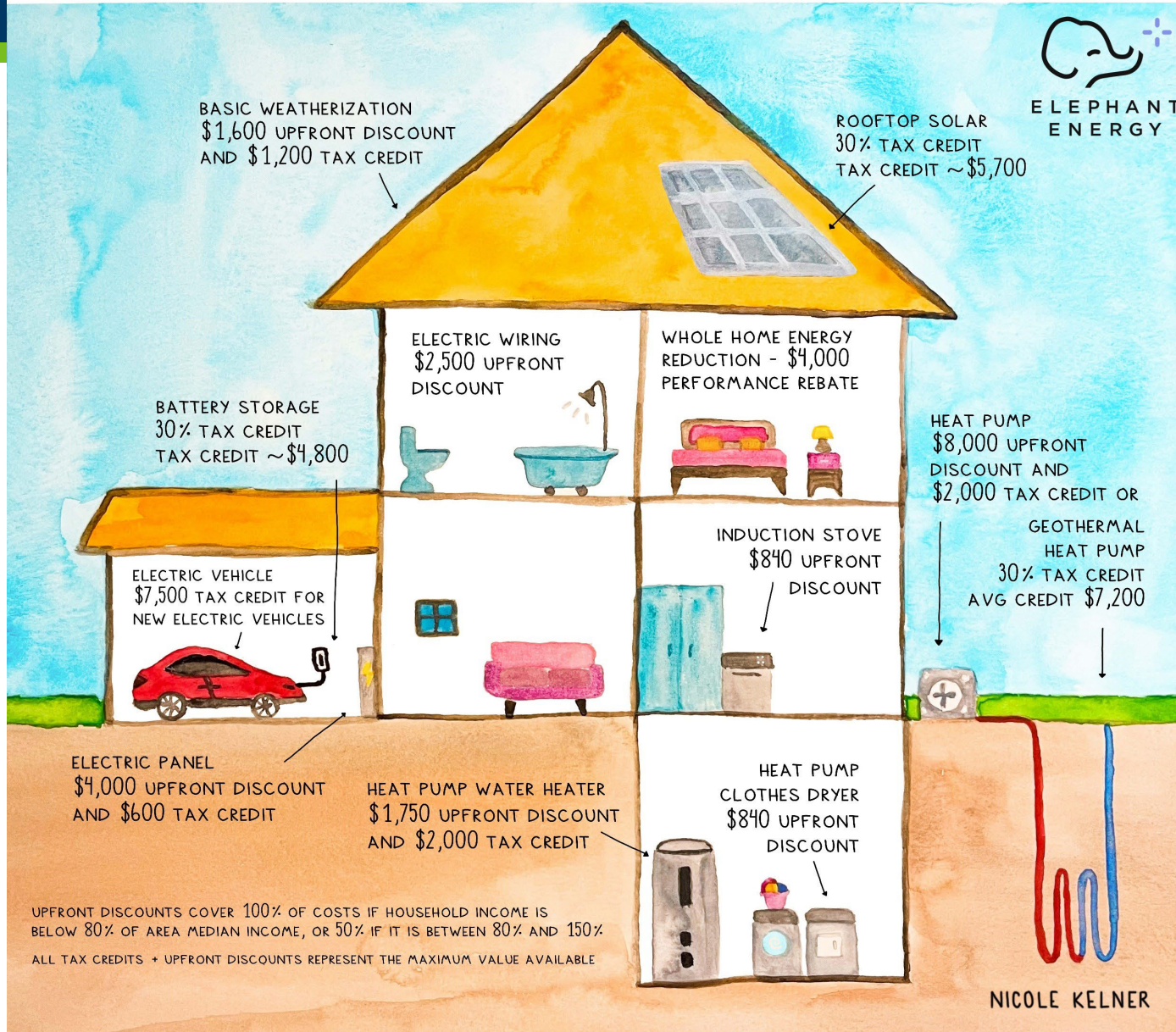
Solar on MN Public Buildings

**Onsite Energy Storage System
Grants**

**Community Solar Garden
Program**

POTENTIAL SAVINGS FROM THE IRA

BASED OFF A 4 PERSON HOME WITH A COMBINED INCOME OF \$150,000 IN DENVER, COLORADO



- IRA also has consumer and homeowner facing tax credits and rebates
- In Minnesota, the Federal Rebate programs will be administered by Commerce



Questions?

Fedquestions.commerce@state.mn.us